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**INVESTMENT**  
PROPERTY REPORT

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**Lisney**

Q3

2019

# Investment in numbers

## ACTIVITY



€1.24bn

€1.24bn investment market turnover in Q3 with the YTD at €3.05bn

## SECTOR



48%

PRS was the dominant sector again accounting for 48% of the total spend

## LOCATION



89%

89% of activity in Dublin

## DEMAND



€930m

Almost €930m worth of investment property sale agreed



Nova Atrium, Sandyford sold to Singaporean investor Mapletree for a reported €165m

“ Total  
spend  
reaching  
€1.24bn ”

## OVERVIEW

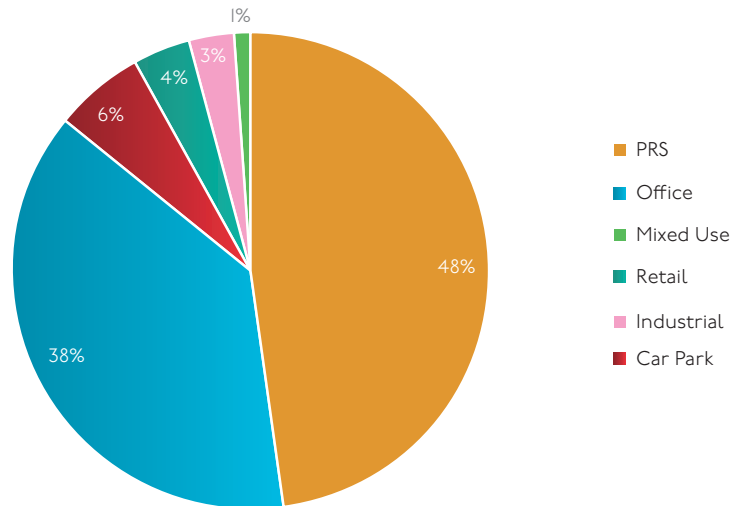
The investment market was very strong yet again in Q3 2019 with total spend reaching €1.24bn. Activity in Q3 was on a par with Q2, while the total turnover for the first nine months of the year was €3.05bn. The big news story of the quarter was the agreement of Green REIT to sell to UK based investor Henderson Park Capital for €1.34bn. At the end of September, this transaction had yet to close but it is reportedly a sale of the company rather than individual assets. This means that it will not be included in 2019 investment market turnover figures, but it should be noted alongside it given its significance.

## ACTIVITY

Strong demand remained for office and PRS assets and when combined, they accounted for 86% of all investment spend in Q3. As with the previous three months, PRS was the dominant sector. It was almost half of all investment market turnover in Q3 and 45% for the year to date. Offices, traditionally the largest investment sector, made up 38% of turnover in Q3. The other sectors accounted for reduced proportions of the market; retail at just 4%, industrial at 3% and mixed-use / other at 7%.

## ACTIVITY BY SECTOR

### Q3 2019



Source: Lisney

In Q3, Dublin led activity in terms of location, making up 89% of turnover, across 34 transactions. Cork accounted for 5% of the market, in line with its five-year average representation in the market. In addition, Clare accounted for 4% of activity however this was entirely due to Fine Grain's purchase of Westpark Shannon Business Campus for €50m.

Excluding confidential transactions where the purchaser cannot be analysed, international buyers remain very active and dominate the market; making up about three-quarters of all activity. This is particularly the case for larger lot sizes, as overseas buyers purchased all opportunities over €50m, while accounting for eight of the top ten deals. The average lot size in the market overall was €25m in Q3, which is ahead of recent quarters and significantly larger than the five-year average, which is €14.5m. Focussing on international purchasers, the average lot size of assets bought by them in Q3 was €64m; clearly showing their dominance for big ticket deals.

Off-market activity also continued in Q3, accounting for 31% of turnover across seven transactions, which is less than recent quarters where it was about 40%. Two noteworthy deals done off-market in Q3 was that of the Nova Atrium office building in Sandyford for a reported €165m and The Benson Building, Dublin 2 for over €52m.

Following an absence in Q2, forward-purchase deals became a feature of the market again in Q3, accounting for 22% of turnover or €269.5m across two deals. Notably, these sales were two of the top five deals in the quarter and both were PRS. The Dublin Landings PRS scheme sold for €175.5m to US fund Greystar, while The Quarter at Citywest was purchased for €94m by residential fund Urbeo. Excluding forward purchases, the investment market turnover for Q3 2019 was €966m.

“ PRS accounted for 48% of the total investment spend ”

**SECTORS**

**OFFICES**

Offices accounted for 38% (€465.7m) of the total investment spend in Q3. This was across 11 transactions and the average lot size was €42m. The largest office deal (and the largest deal across all sectors) in the quarter was the sale of 5 Hanover Quay by Targeted Investment Opportunities (a JV between Oaktree Capital, Bennett Group and Nama). It was purchased by Union Investment, a German fund, for reported €197m, representing a net initial yield of 4.1%. The next largest office sale was the off-market purchase of Nova Atrium by Mapletree for €165m. Jointly, these two large office transactions made up 29% of market turnover.

It should also be noted given the strong weighting of prime Dublin offices in the portfolio that in Q3, Henderson Park Capital agreed to purchase Green REIT for €1.34bn. Had this been an asset sale rather than a company sale it would have pushed quarterly take-up significantly higher and the representation of the office sector.

**PRIVATE RENTED SECTOR (PRS)**

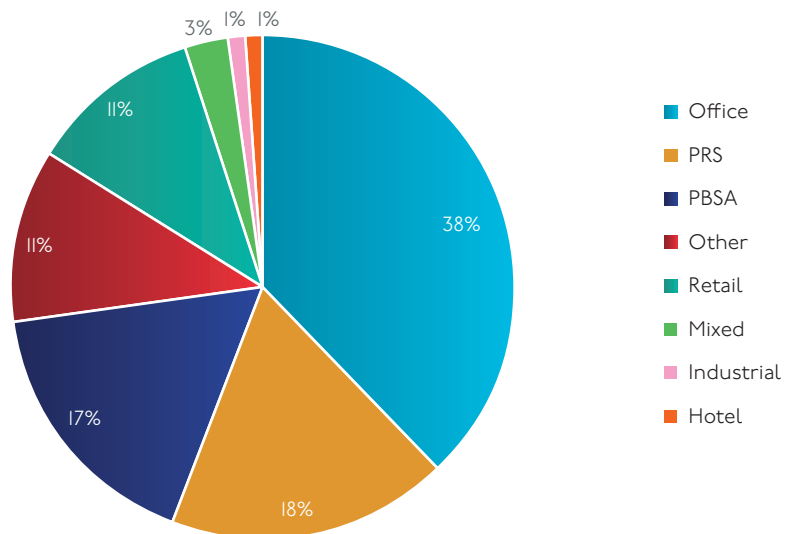
As with Q2, PRS dominated the market in Q3. At €593m, turnover in the sector reached 48% of all activity across 12 deals.

The forward-purchases of both Dublin Landings and The Quarter at Citywest were the largest PRS transactions in Q3. Dublin Landings will comprise 268 units and sold for a reported €175.5m while The Quarter scheme comprises 282 units and sold for €94m. Additionally, there were three other large PRS deals sold in the quarter, all with lot sizes over €50m; one confidential sale off-market for about €93m, The Benson Building (€52.5m) and The Circle Collection (27 refurbished pre-63's for €52.5m).

**SUPPLY**

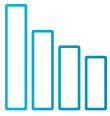
At the end of Q3 2019, there was a total of €1.45m worth of assets on the market. Of this, €956m was either sale agreed or under negotiation. This means that just €490m was available for purchase. Retail accounted for almost 40% of this and offices a further 30%. The largest of the opportunities available was the 62.4% interest in Stephen's Green Shopping Centre (quoting €130m). The lack of activity in the retail sector (just 3.9% of activity in Q3) is bringing perceived pricing into question with potential purchasers not meeting vendors pricing expectations. In terms of Stephen's Green Shopping Centre, it is an asset that is not yet stabilised and offers significant opportunities to a new owner to redevelop and upgrade along with co-owners.

**SALE AGREED BY SECTOR**  
Q3 2019



Source: Lisney

## PRIME NET EQUIVALENT YIELDS



	END-SEP 2019	QUARTERLY CHANGE	ANNUAL CHANGE	BELOW LTA
Office	4.00%	-	-	-145bps
Retail	3.25%	-	+5bps	-365bps
Industrial	5.25%	-	-25bps	-240bps
PRS (Gross)*	5.00%	-	-25bps	

\* PRS yields do not have OPEX accounted for and as such, are on a gross basis.

Source: Lisney

“ There have been some big second-time trades in Q3 ”

### PRICING

Prime yields were unchanged in all sectors in Q3. Prime net equivalent yields remain below long-term averages across each sector and as such, further decreases are unlikely in the short-term.

### IN FOCUS - RECYCLING OF ASSETS

Recycling of assets sold earlier in the current property market cycle remains a feature of the market as more transient investors look to realise profit and exit the market. Of the €4bn in assets we expect to see transact this year, about three-quarters of this has been sold previously in this cycle (since 2012) either through loan or asset sales.

An analysis of the list of assets that have traded twice or more in this cycle highlights the dominance of the office and residential sectors. The increase in values in these sectors has facilitated much profit-taking with rents increasing by 60% or more in many cases. When combined with yield compression, some values have more than doubled from the trough in 2012 to now.

There have been some big second-time trades in Q3 including Nova Atrium in Sandyford. This scheme was bought in 2014 by Blackstone for approximately €100m who refurbished and leased the

two blocks. It has now been re-sold to the Singaporean investor Mapletree for a reported €165m with the benefits of the added value. Similarly, in the final quarter of this year we expect to see several office assets coming to the market that have sold previously. These include One Kilmainham, 23 Shelbourne Road and La Touche House in the IFSC.

Reportedly, all the Green REIT Portfolio that was not developed by the company is, in effect, being retraded as part of the proposed corporate sale.

It is not just offices where re-trades are occurring. In the residential sector, some recycling of assets is beginning. Notably, Tristan and SW3 brought its Vert PRS platform, comprising 382 apartments, to the market in September guiding €200m. The residential schemes included in the sale are Honeypark, Dun Laoghaire (197 apartments) and Elmfield, Leopardstown (185 apartments). Honeypark was purchased for a reported €72.5m in 2016 while Elmfield was purchased across two transactions in late-2017 and mid-2019 for a combined €68.5m. Altogether, Tristan and SW3 paid approximately €141m for the assets included in the portfolio now for sale. The fact that these assets are built and income generating, within an established platform, sets them apart from much of the pre-sale activity dominating the PRS submarket at present.

Equally, in the retail sector only a limited number of retail assets have traded more than once, with Liffey Valley Shopping Centre the noteworthy exception. The challenges in the retail market are well documented. Occupier demand and investor appetite are not in the right places for profit-taking and re-trading assets.

Another factor contributing to the recycling of assets is the Capital Gains Tax exemption window. Investors who bought between 7th December 2011 and 31st December 2014 are entitled to tax relief on gains on disposal of the property if held for between four and seven years. When the property is held for a period greater than seven years, the tax relief is diluted. This is pushing some investors to the exit door and selling when macro conditions may not be ideal.

Increasingly, the market is thinning out in terms of the numbers of buyers although there are still new entrants. In many cases, investors who bought early in the cycle were buying properties or property-secured loans that were in a certain level of distress. Asset management opportunities often presented low hanging fruit in terms of opportunities to add value. However, when assets are re-traded, it is typically a more discretionary sale after value has been added and consequently significant uplifts are no longer possible for the next investor. Consequently, demand for such assets generally stems from those with a lower cost of capital. Such investors are currently thin on the ground.



## OUTLOOK

- Strong demand from international investors is likely to continue for prime larger lot sizes, mainly in the PRS, office and industrial sectors due to economic performance and strong occupational markets.
- Private investors remain active participants up to about €5m, with property still offering strong income returns in a very low-return wider investment environment.
- Off-market sales will remain a significant share of the marketplace throughout 2019.
- The PRS sector is likely to account for over 40% of all investment turnover in 2019.
- The stamp duty increase made in the Budget will negatively impact values and is likely to reduce liquidity.
- When the sale of Green REIT's portfolio is complete, the investment property landscape will change. This will remove one of the three commercially focussed REITs from the stock market and eliminate an avenue for large and small investors to invest in the Irish market. The sale also removes an investor/developer out of the market, which had very low-cost capital and one that has developed some first-rate new assets across the sectors.

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